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National Association of Purchasing Management®

Report On Business®

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November Report

Continued Robust Growth; Index Holds at 56.6%

Inflation Rate Continues Downtrend

Export Orders Slow

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

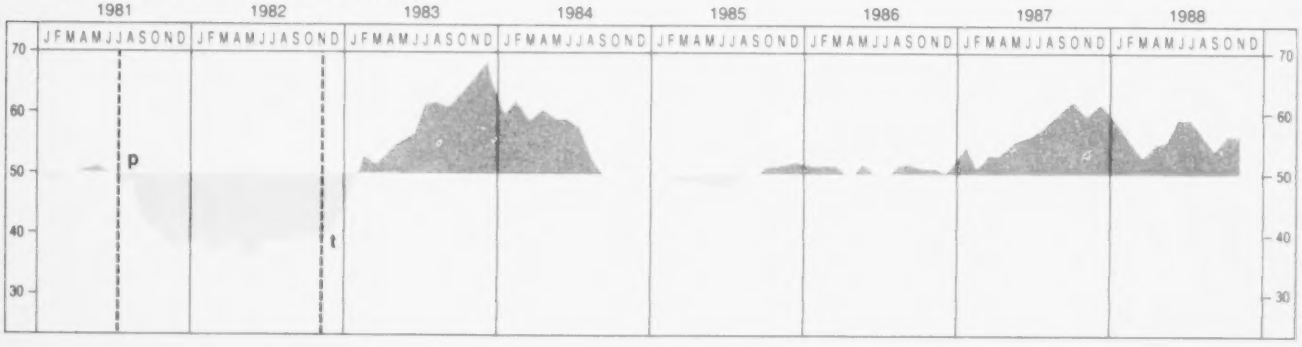
The economy registered another impressive improvement in the rate of growth in November, virtually mirroring the brisk rebound in October, say the nation's purchasing executives in their latest *Report on Business*. The November **Production** and **New Order** growth rates were solid, both only slightly lower than in October. **Employment** increased for the sixth consecutive month at the strongest rate in the last 12 months.

New **Export Orders,** although continuing to show healthy growth, exhibited signs of slowing for the fourth consecutive month. Of those members who export, 22% reported higher export orders, down from 26% in October and significantly lower than the 37.8% average of the first seven months of 1988. The 8% indicating lower export orders is unchanged from October, and represents the most to report lower in 1988.

Vendor Deliveries continued to slow but at a significantly lessened pace than all of 1988. **Inventories** increased in November, after three consecutive months of decline, when considering normal seasonal variations. **Prices** increased for the 28th consecutive month although the rate of growth is the lowest since May 1987. And, for the first time since October 1987, ethylene, a major petrochemical, was not reported up in price.

The *Report* was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "November's robust showing underscores the strength remaining in the economy as it entered the seventh year of recovery. Although displaying some signs of softening, particularly in the Export Order growth rate, the continued healthy level of New Orders, combined with a solid downtrend in the inflation rate, virtually assures a strong fourth quarter."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index

January	57.4	July	59.0
February	54.9	August	56.2
March	53.3	September	54.8
April	54.9	October	56.8
May	55.1	November	56.6
June	59.3		

The **Purchasing Managers' Index** registered 56.6% in November, virtually unchanged from 56.8% in October. The 56.6% marks the 28th consecutive month this leading indicator has exceeded 50%. A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. Bretz added, "The average for the first 11 months of 1988 is 56.2%. Past experience indicates that if the average continued for December, it would be consistent with real GNP growth of about 3.7%, less the loss resulting from the drought, and unchanged for the past five months."

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

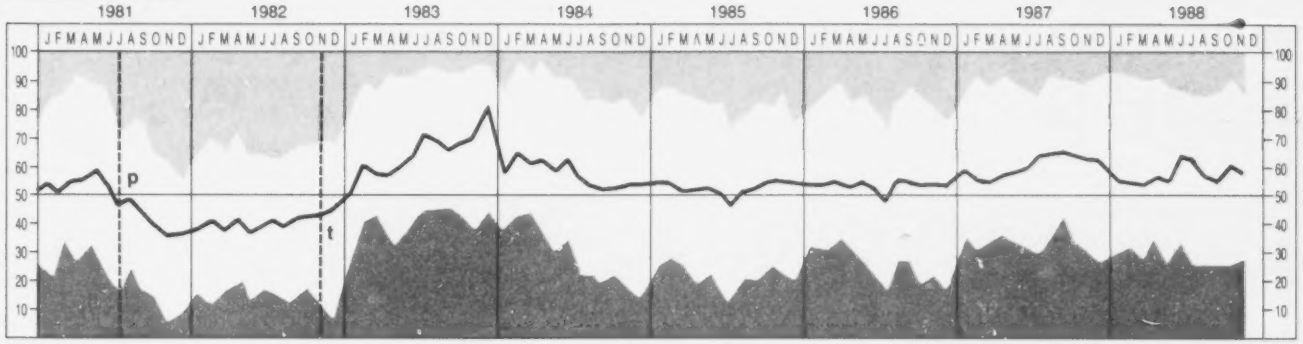
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response,
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries),
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("p" — July 1981) and trough ("t" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

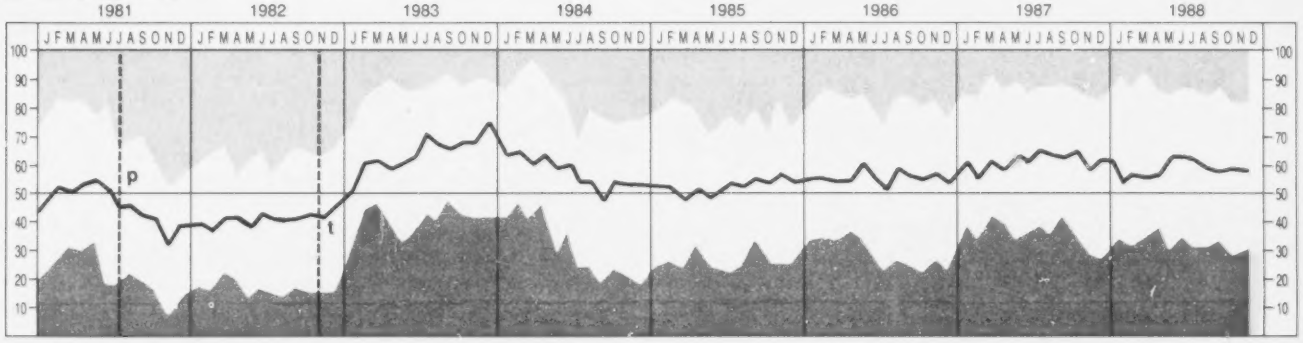
PRODUCTION



Production continued to increase in November for the 28th consecutive month. Although the index, at 58.2%, is somewhat lower than in October (60.3%), it is growing at a consistently brisk pace.

Production	%Better	%Same	%Worse	Net	Index
November	27	58	15	+12	58.2
October	26	65	9	+17	60.3
September	26	62	12	+14	56.0
August	26	60	14	+12	58.2

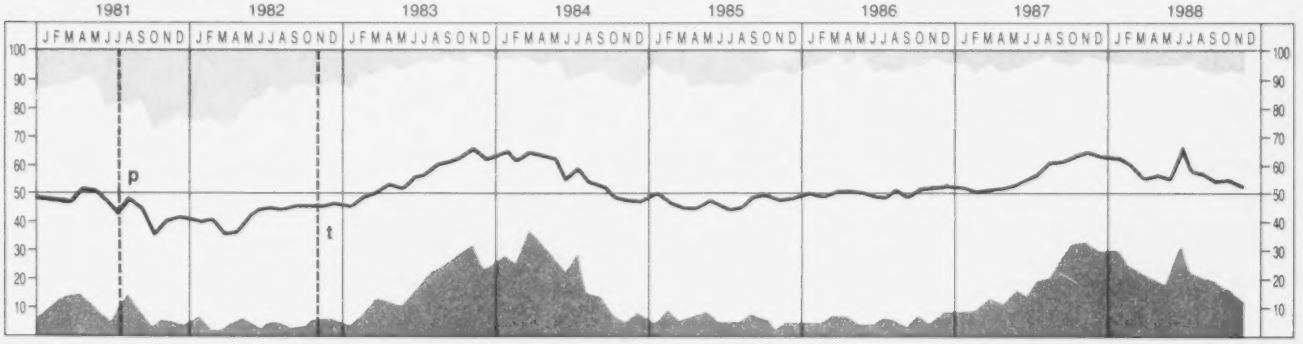
NEW ORDERS



New Orders expanded in November for the 42nd consecutive month, after taking normal seasonal variations into consideration. The index registered 58.0%, down slightly from 58.9% in October. Given the high level of New Orders, there is a good likelihood of continued Production growth in December.

New Orders	%Better	%Same	%Worse	Net	Index
November	30	52	18	+12	58.0
October	28	54	18	+10	58.9
September	34	55	11	+23	58.4
August	31	54	15	+16	59.9

VENDOR DELIVERIES



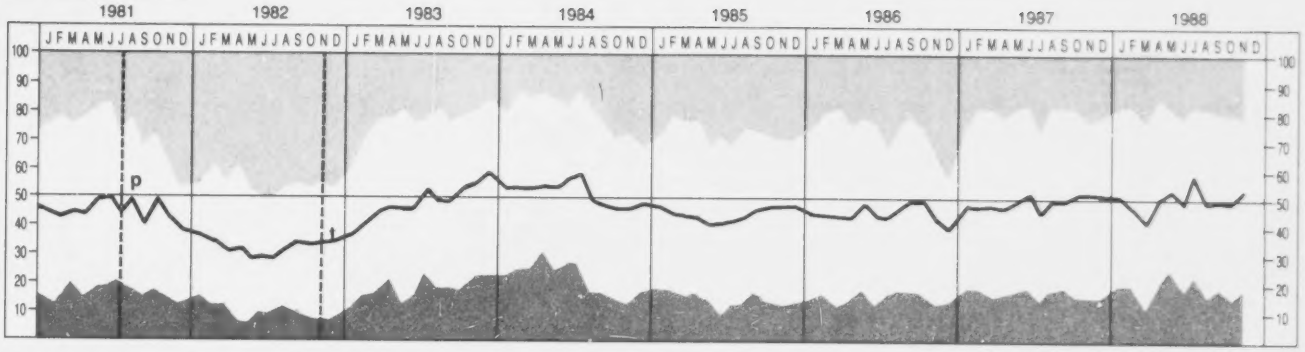
November marks the 26th consecutive month that Vendor Deliveries have slowed. However, the index dropped significantly in November to only 52.1%, the lowest rate since April 1987 (51.8%). This signals that capacity may be close to reaching parity with demand. Nevertheless, a number of commodities persistently remain in short supply.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
November	11	81	8	+ 3	52.1
October	17	77	6	+11	55.6
September	19	73	8	+11	55.0
August	20	73	7	+13	58.1

IN SHORT SUPPLY:

Aluminum (14th consecutive month), **Copper** (3rd consecutive month), **Stainless Steel** (11th consecutive month), **Bleached Paperboard** (5th consecutive month), **Polyethylene** (7th consecutive month; used heavily in making packaging materials and paper coatings), **Plastic Resins** (7th consecutive month), **Acrylic Acid** (4th time in 5 months; used in manufacturing plastics), **Caustic Soda and Soda Ash** (18th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Ethylene** (8th consecutive month; some easing in tightness reported; used heavily in making ethylene oxide, plastic resins and glycols), **Ethylene Oxide** (9th consecutive month), **Ethylene Derivatives** (5th time in 6 months), **Ethylene Glycol** (4th time in 6 months). NOTE: Three major ethylene and ethylene-derivative plants, previously closed because of fires, are now back in production. **Phenol** (8th consecutive month; used heavily in making phenolic resins), **Methyl Ethyl Ketone (MEK)** (7th time in 8 months; used heavily as a chemical solvent in surface coatings and making resins), **Titanium Dioxide** (16th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), **Rayon, Bearings** (4th consecutive month), **DRAMS** (1st time since June 1988; dynamic electronic memory devices used heavily in computers).

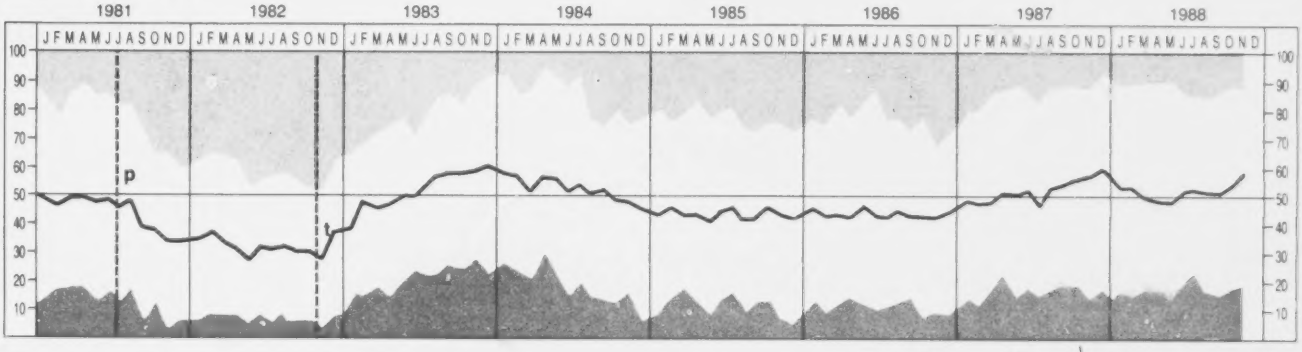
INVENTORIES



Inventories increased in November, on a seasonally adjusted basis, after declining since August. The index rose to 52.6%, up from 49.4% in October. The 52.6% represents the greatest rate of growth since July (55.1%) and suggests that some inventory building may have helped the economy in November.

Inventories	%Higher	%Same	%Lower	Net	Index
November	17	61	22	- 5	52.6
October	15	65	20	- 5	49.4
September	20	61	19	+ 1	49.6
August	18	64	18	0	48.6

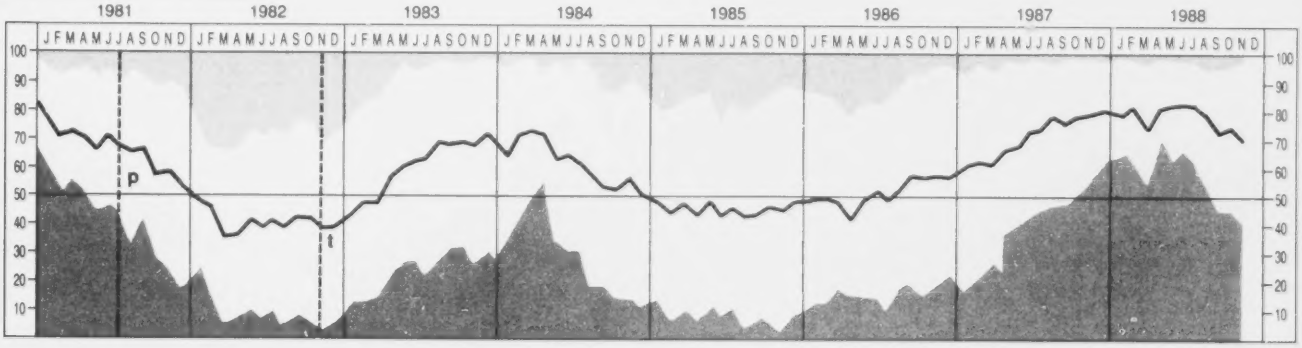
EMPLOYMENT



Employment grew sharply again in November. The index at 57.9% is up significantly from October (53.7%) and the greatest since December 1987 (59.7%). Some purchasers indicated difficulty in hiring new employees.

Employment	%Higher	%Same	%Lower	Net	Index
November	18	69	13	+ 5	57.9
October	16	72	12	+ 4	53.7
September	14	70	16	- 2	50.2
August	16	68	16	0	50.7

COMMODITY PRICES



Prices increased in November for the 28th consecutive month. However, the 70.3% index in November was down a bit from October (70.7%) and sharply lower than the 82.4% registered in June confirming a solid downtrend in the reduction of the inflation rate over the past five consecutive months.

Prices	%Higher	%Same	%Lower	Net	Index
November	40	58	2	+ 38	70.3
October	45	51	4	+ 41	70.7
September	47	49	4	+ 43	72.2
August	55	40	5	+ 50	78.7

UP IN PRICE:

Aluminum (21st time in 22 months; some reports of price decreases), **Copper** (19th time in 21 months), **Copper Products** (1st time since June 1988), **Steel** (26th time in 27 months), **Stainless Steel** (11th consecutive month), **Zinc** (10th time in 11 months; used heavily in metal alloys and as a protective coating for metals), **Castings** (4th consecutive month), **Printing Paper** (20th time in 23 months), **Paper Products** (10th consecutive month), **Bleached Paperboard** (3rd time in 5 months), **Plastic Resins** (17th time in 18 months), **Plastic Products** (18th time in 19 months), **Methanol** (10th time in 12 months; used heavily as a solvent and in synthesizing other chemicals), **Toluene** (used heavily in making explosives, dyes and benzoic acid; as a solvent in paint and gasoline additive), **Xylene** (used heavily in making benzoic acid, phthalic anhydride, polyester fibers and dyes), **Caustic Soda** (24th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Ethylene Glycols** (4th time in 5 months; used heavily in making antifreeze, brake fluid, plastic paint and ink), **Rayon, Bearings** (4th time in 5 months; anti-dumping suits reported), **Natural Gas.**

DOWN IN PRICE:

Fuel Oil (10th time in 12 months).

BUYING POLICY

Lead times for Capital Expenditures declined in November with 53% of purchasers reporting lead times of 6 months and longer, down from 57% in October and significantly lower than the exceptionally high level of 60% reported in September. Lead times for Production Materials lengthened slightly in November with 22% of members reporting lead times of 90 days and longer, up from 20% in October, but still under the 26% reported in September. Lead times for Maintenance, Repair and Operating (MRO) Supplies were shorter with 86% of purchasers indicating lead times of 30 days or less, up from 80% in October and about the same as in August and September (85%).

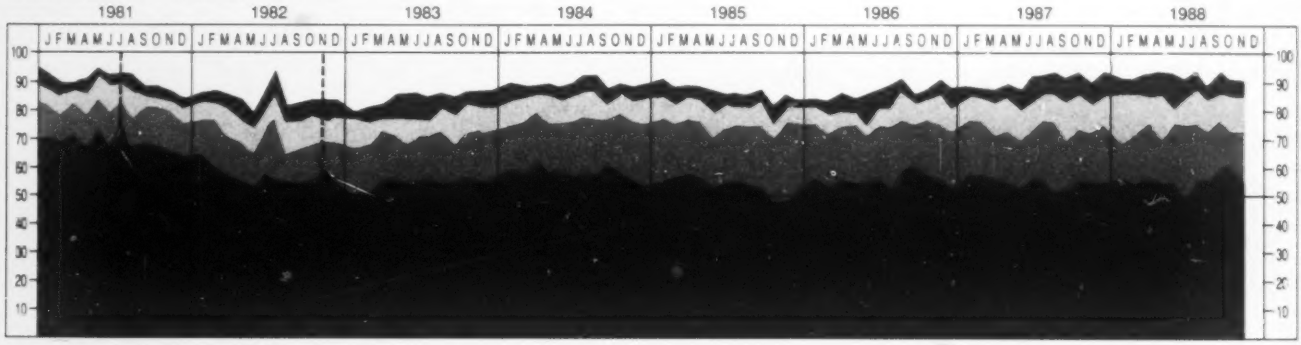
Percent Reporting

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
November	11	6	11	19	53
October	10	6	12	15	57
September	9	5	10	16	60
August	12	5	12	16	55

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
November	17	40	21	16	6
October	15	42	23	15	5
September	16	34	24	20	6
August	16	35	27	16	6

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
November	40	46	8	4	2
October	38	42	13	5	2
September	38	47	13	2	0
August	40	45	11	4	0

CAPITAL EXPENDITURES



Commodity Report
November, 1988

ENERGY
Prepared by the NAPM Energy Committee. Chair: Howard T. Perley, C.P.M., International Paper, Memphis, TN.

COAL: Pressure is on coal prices to drop, due to lower oil prices and mines with over capacity. However costs have been affected by rising barge rates.

ELECTRICITY: Power costs are increasing for hydroelectric producers due to poor water conditions. Natural gas prices to utilities are also higher. Electric power prices for nuclear and coal generators, however, will increase less than the rate of inflation. Consult with local utilities for opportunities to reduce electricity and conservation costs.

NATURAL GAS: A significant increase in gas prices may result from the distribution of penalties accumulated by the "take or pay" problem which developed in the 1970's.

PETROLEUM PRODUCTS: Crude oil prices should remain near $15 a barrel, based on normal weather conditions and expected OPEC production and shipping levels. Residual fuel prices should remain soft through 1988, but supply may be a problem in some areas.

PACKAGING
Prepared by the NAPM Packaging Committee. Chair: Carl Dirkse, C.P.M., S.C. Johnson and Son, Inc., Racine, WI.

The packaging markets continue to be strong, with growth due to exporting. No surplus supply or decreasing prices are reported. Shipments of rigid containers are expected to rise 5.4% in 1988. Packaging disposal continues to be a concern, particularly with plastics.

METAL CANS: Supply adequate, some prices increasing. Aluminum can prices up, which may be modified as buyers switch to steel. Recycling of both continues.

FIBRE CANS AND FIBRE DRUMS: Supply adequate, some prices up due to board increases.

GLASS: Some price increases; supply adequate, with some tightness in 3rd quarter. Continued losses to plastic.

MOLDED PLASTICS AND FILMS: Shortage of resin has caused prices to increase, though supply and prices are improving now.

LAMINATED STOCK: Tight supply and increased prices due to resin and aluminum foil shortages are beginning to ease.

METAL DRUMS: Adequate supply, some prices up due to steel increases.

FOLDING CARTONS: Supply tight (esp. SBS), long leadtimes, increasing prices. Heavy exports. Two plant closures in California could affect availability.

CORRUGATED: Availability tight to adequate, prices increasing, though future direction uncertain. Mill operating rates high, exports a factor.

BAGS: Supply tight and prices increasing due to resin and paper shortages.

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The next issue of *REPORT ON BUSINESS* will be available January 3, 1989.